BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
Marshall Johnson	Commissioner
Ken Nickolai	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of a Petition by Northern States Power Company d/b/a Xcel Energy for a Renewal of Variances to the Fuel Clause Adjustment Rule

ISSUE DATE: August 13, 2004

DOCKET NO. E-002/M-04-595

ORDER EXTENDING VARIANCES AND REQUIRING TARIFF AND COMPLIANCE FILINGS

PROCEDURAL HISTORY

On June 27, 2000 in Docket No. E-002/M-00-420, the Commission granted variances to Minn. Rules, Parts 7825.2600, subp. 2 and 7825.2400, subp. 13 and approved Xcel's request to calculate the FCA based on a month-ahead forecast of sales and fuel/purchased energy costs with a monthly true-up for actual sales and costs.

On July 27, 2001 in Docket No. E-002/M-01-477, the Commission extended the variances previously granted to Xcel in the June 27, 2000 Order.

On July 17, 2002, the Commission issued an Order in Docket No. E-002/M-02-645 extending variances granted in its July 27, 2001 Order.

On July 10, 2003, the Commission issued an Order in Docket No. E-002/M-03-585 extending these variances to July 15, 2004.

On April 15, 2004, Xcel filed its request for another one-year extension of these variances.

On June 16, 2004, the Minnesota Department of Commerce (the Department) recommended that the Commission grant the requested one-year variance extension to allow basing the monthly FCA on the month-ahead forecast and to allow the monthly FCA to be prorated based on the number of days in each billing cycle. The Department also recommended, however, that the Commission reject the monthly true-up mechanism proposed by the Company in favor of a moving-average true-up, and impose several reporting requirements.

On June 28, 2004, Xcel filed reply comments to the Department's recommendations on June 28, 2004. In reply, the Company did not agree with the recommendation to apply a moving-average true-up instead of the monthly true-up mechanism that it had proposed.

The Commission met to consider this matter on August 5, 2004.

FINDINGS AND CONCLUSIONS

I. XCEL'S PETITION

In conjunction with its Annual Automatic Adjustment (AAA) report filed pursuant to Minn. Rules, part 7825.2800, Xcel requested that the Commission extend the variances to Minn. Rules 7825.2600, subp. 2 and 7825.2400, subp. 13 to allow it to calculate the FCA based on a one-month-ahead forecast of sales and energy costs, rather than a rolling average of actual sales and energy costs, to include a rolling monthly true-up factor in each monthly FCA, and to prorate the FCA based on the number of days in each billing cycle.

In support of its request, Xcel argued that 1) continuation the variances gave better price signals for ratepayers and better matching of cost recovery with cost incurrence; 2) the variances result in more accurate, timely and fair rates; 3) monthly reporting in the FCA and through the annual reporting requirement provides an adequate safeguard; and 4) granting the variances does not conflict with the standards of law.

Xcel cautioned that if the Commission did not extend the variances, the Company would need to re-establish the prior method of calculating the FCA. This would impose a burden on ratepayers due to the transition costs of re-instituting the historical FCA method.

II. THE DEPARTMENT'S COMMENTS

The Department recommended that the Commission grant the requested one-year variance extension to allow Xcel to base its monthly FCA on the month-ahead forecast and to allow the monthly FCA to be prorated based on the number of days in each billing cycle.

The Department also recommended, however, that the Commission reject Xcel's monthly true-up mechanism in favor of a moving-average true-up. The Department stated that Xcel's proposed monthly method is significantly less accurate than the moving average method and that the moving average method reasonably aligns cost recovery and sends proper price signals to customers, consistent with the Commission's stated preference for cost recovery occurring as closely as possible to the time the costs are incurred.

In addition, the Department recommended that the Commission direct Xcel in its next annual Forecasted FCA Compliance Report (due April 15, 2005) to continue to meet the reporting requirements of the 2000, 2001, and 2002 Orders, including the requirements that the Company

1. provide a calculation of what the monthly FCA would have been absent this change;
2. provide a calculation of what the monthly FCA was under the pilot;
3. describe how closely the FCA under the pilot program mirrors actual costs;
4. discuss alternative true-up methods;
5. include the Company's recommendations for the future of the pilot;
6. discuss whether the pilot created any new lead/lag issues that warrant consideration;
7. discuss customer reaction to the pilot, if any; and
8. isolate the effects that the forecast method has on the FCA from the effects of the inclusion and uses of the financial tolls that the Commission has permitted Xcel to use and flow through the FCA as a result of Docket No. E-002/M-99-577.

In addition, the Department recommended that Xcel be required to describe and explain the performance of the forecast in predicting fossil fuel costs, purchased energy costs, nuclear fuel costs, system MWh sales, and net system costs.

III. XCEL'S REPLY

Xcel objected to the recommendation to apply a moving-average true-up instead of the monthly true-up mechanism. Xcel argued that the moving-average method may not consistently improve the accuracy of the price signals and asserted that the monthly true-up method remains the appropriate choice for use with the forecasted FCA.

Xcel noted that with the current variances expiring on July 15, 2004, there is very little time to complete the administrative requirements: notice to customers of the change, consideration of whether the change leads to the need for a refund or surcharge, and recomputing the revised true-up method would be administrative problems. Due to the short time before the variances would expire, the Company requested that the Commission allow the proposed monthly true-up, and if the Commission is interested in the moving-average method, direct that Xcel to work with the Department to evaluate the true-up methods discussed in the Department's comments. Even better, Xcel stated, the matter could be deferred to the statewide fuel cost adjustment investigation (Docket E-999/CI-03-802) to allow for all utilities to make contributions to the discussions and to address appropriate changes to the FCA.

In response to the Department's recommendations for compliance reporting, the Company agreed to the reporting requirements from the 2000, 2001, 2002 Orders and to the recommended report on 1) the performance in predicting fossil fuel costs, 2) purchased energy costs, 3) nuclear fuel costs, 4) system MWh sales, and 4) net system costs. Regarding the lead/lag issues, customer reaction to the pilot, and effects of the forecast method as distinguished from the effects of the financial instruments, however, the Company stated that it had reported on these issues in the past, believed them to be resolved, and did not intend to report on them in the future unless the Commission directed otherwise.

IV. COMMISSION ANALYSIS AND ACTION

The Department has provided a thorough review of the forecasted FCA pilot, including analysis of the pilot from its inception to the present. The Commission concludes that the pilot forecasting methodology is performing reasonably well, forecasting more accurately than the historical method 30 out of 44 months reported and more closely tracking fuel costs over time than the historical method. The Commission therefore will approve its continuation, concurrently extending the related variances to Minn. Rules, Part 7825.2600, subp. 2 and 7825.2400, subp. 13.

Regarding the variances, the Commission finds that they are warranted pursuant to Minn. Rules, Part 7829.3200 because under the circumstances shown in this record enforcement of the rules would impose an unreasonable burden on ratepayers, granting the variances is not contrary to the public interest, and granting the variance violates no standard imposed by law.

Regarding the Department's recommendation that the Commission require Xcel to switch to the moving-average methodology, the Commission is not persuaded that it should do so. Based on the record in this docket, the benefits of such a switch are not clearly enough established to warrant the transition expenses attendant upon such a change. Any decision regarding the merits of the various alternative true-up methods would benefit from deeper examination, possibly with input from all relevant utilities and interested parties. In short, the Commission finds no compelling reason to change methods for one utility at this stage of its pilot program.

As to Xcel's reporting in future dockets, the Commission finds that it would be appropriate to receive information from Xcel on the items identified by the Department, both the items the Company has agreed to address and those which it has not agreed to address unless directed to do so. The Commission will therefore direct Xcel in its future FCA filings to provide the following:

1. the reporting requirements from the 2000, 2001, 2002 Orders;
2. report on the performance in predicting fossil fuel costs, purchased energy costs, nuclear fuel costs, system MWh sales, and net system costs; and
3. report on the lead/lag issues, customer reaction to the pilot, and effects of the forecast method as distinguished from the effects of the financial instruments.

ORDER

1. Xcel's petition is approved as filed.

2. Xcel is granted a one-year extension to July 15, 2005 of the variances to Minn. Rules, Parts 7825.2600, subp. 2 and 7825.2400, subp. 13 to allow Xcel to continue using the forecasted FCA method with a monthly true-up mechanism and allowing the monthly FCA to be prorated based on the number of days in each billing cycle.

3. Within 15 days of this Order, Xcel shall file updated tariff pages reflecting the extension of the variances.

4. In its next Forecasted FCA Compliance Report, Xcel shall

   a. continue to meet the reporting requirements of the 2000, 2001, and 2002 Orders, including the requirements that the Company

      - provide a calculation of what the monthly FCA would have been absent this change;
      - provide a calculation of what the monthly FCA was under the pilot;
      - describe how closely the FCA under the pilot program mirrors actual costs;
      - discuss alternative true-up methods;
      - include the Company's recommendations for the future of the pilot;
      - discuss whether the pilot created any new lead/lag issues that warrant consideration;
      - discuss customer reaction to the pilot, if any; and
      - isolate the effects that the forecast method has on the FCA from the effects of the inclusion and uses of the financial tools that the Commission has permitted Xcel to use and flow through the FCA as a result of Docket No. E-002/M-99-577; and

   b. describe and explain the performance of the forecast in predicting fossil fuel costs, purchased energy costs, nuclear fuel costs, system MWh sales, and net system costs.

5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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